

# Housing Facts & Findings

SHARING KNOWLEDGE ABOUT HOUSING AND COMMUNITY DEVELOPMENT ISSUES

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## Making Affordable Assisted Living a Reality

By Jenny Schuetz



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ASSISTED LIVING A  
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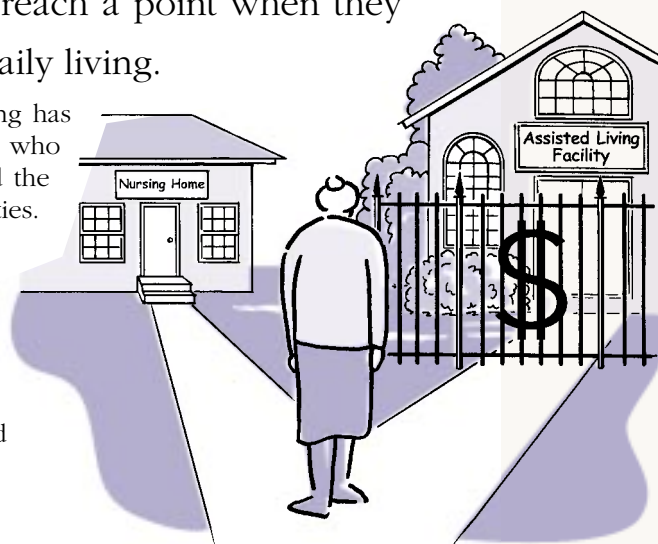
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Americans are living healthier and longer lives than ever before. And choosing a home at any stage in life is a momentous decision. We all want to live in a safe, comfortable environment that provides the amenities and services we need at a price we can afford. Senior citizens are no different. Older people want to live as independently as possible for as long as possible. Although many people can and do stay in their existing homes as they age, many older people reach a point when they need some assistance with activities of daily living.

Over the past decade, a private market in assisted living has emerged to address this intermediary stage—for seniors who can no longer live on their own but who do not need the full-time medical care provided at skilled nursing facilities. Assisted living facilities offer a combination of housing, supportive services, and personal—not medical—care that enables older people to maintain maximum independence while receiving the assistance they need. The combination of independent living and supportive services has made assisted living an increasingly attractive option for many upper- and middle-income seniors.



# Affordable Assisted Living: States Can Make It Happen

By Governor Mike Huckabee



Whether it is for ourselves or for older family members, most of us will have to address the need for long-term care at some point in our lives. Ideally, the care we receive will be affordable and appropriate to our needs. The challenge for our nation as a whole and for state governments in particular is to ensure equitable access to quality care that is both affordable and flexible enough to accommodate the need for varying levels of care. Assisted living is becoming an increasingly attractive alternative to traditional nursing home care, because it helps meet the need for long-term care while preserving an individual's independence and dignity.

Unfortunately, because it receives little or no Medicaid assistance, the out-of-pocket costs of assisted living make it unaffordable for many people and unattainable for low-income Americans. Ironically, seniors are often forced to turn to more expensive nursing homes where Medicaid will help with the bill.

The State of Arkansas first embraced the challenge of making assisted living affordable four years ago, when the Arkansas Department of Human Services (ADHS) introduced the State's first piece of legislation to create an assisted living program. To accomplish this, we worked for two years to craft a set of new regulations and permitting procedures that meet the needs of consumers, regulatory agencies, and individual facilities.

Finding the right blend of financing for affordable assisted living was our greatest challenge. But, with persistence, we were able to coordinate numerous complex programs to make affordable assisted living a reality. Specifically, the Arkansas Development Finance Authority created a \$3 million set-aside in its low-income tax credit allocation for affordable assisted living, and ADHS created a Medicaid waiver to provide assisted living care for individuals who would otherwise be cared for in nursing homes. The HOME program, the Federal Home Loan Bank, and the NCB Development Corporation's revolving loan were also key to balancing the financing equation.

All of our hard work paid off. In October 2002, Arkansas saw the opening of its first affordable assisted living facility. To date, four facilities have been awarded tax credits for construction and other developers are in the process of applying.

As our nation's senior population grows, we encourage other states to look creatively at their options and to find opportunities for human service and housing finance professionals to work together to find a sustainable and cost-effective way to meet the needs of seniors.

*The Honorable Mike Huckabee is the governor of Arkansas.*

*The Perspectives column expresses the views of its author and does not necessarily represent the views of the editors, the Fannie Mae Foundation, or its officers or directors.*

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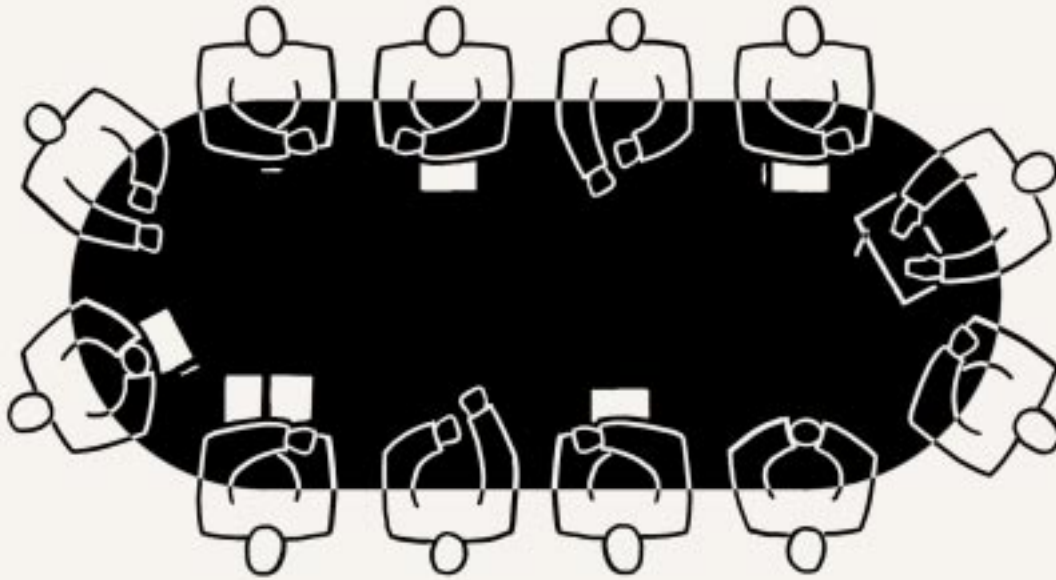
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# Key Findings from a Roundtable on Affordable Assisted Living

By Jenny Schuetz and Margaret Ratcliff



Earlier this year the Fannie Mae Foundation joined with the Robert Wood Johnson Foundation and Volunteers of America to sponsor a roundtable to provide foundation, government, and other leaders with a better understanding of the current crisis in affordable assisted living and to facilitate a discussion of the key issues. The roundtable, held in Washington, D.C., was attended by 37 experts in housing, health services, and assisted living, representing a wide range of viewpoints and experience.

The roundtable included a discussion of an issues paper prepared for the conference by the Harvard Joint Center for Housing Studies. It also identified several policy, demonstration, and research “next steps” with the potential to improve affordable assisted living opportunities significantly. The steps included:

- *Analyze the Benefits of Cross-Silo Funding.* Maximize the impact of housing and health funding by analyzing how investments in housing can produce measurable financial benefits in other areas, including health and medical outcomes.
- *Revise Section 8 Rent Formulas.* Raise the payment standard for seniors who need assisted living services to make it a more affordable option for more seniors.
- *Facilitate Aging in Place.* Study the degree to which states’ existing licensure and reimbursement rate policies facilitate aging in place. Identify best practices and revise state licensure and reimbursement rate policies as necessary.
- *Revise Section 8 and Low-Income Housing Tax Credit (LIHTC) Rent Structures.* Revise income and rent rules in federal housing programs to enable seniors to pay

significantly more than 30 percent of their income for assisted living fees.

- *Clarify LIHTC Rulings.* Obtain IRS rulings to clarify the status of Section 202 Project Rental Assistance Contract (PRAC) funds, establish eligibility of assisted living facilities, and clarify that provision of medication-management services does not disqualify the facility for the LIHTC program.
- *Encourage State-Level Coordination.* Locate and coordinate state housing agencies, state health agencies, housing providers, and health providers that aim to establish a more coordinated approach to affordable assisted living.
- *Coordinate Disparate Federal Programs.* Earmark 15 percent of block grant funds for coordinated use in multidimensional projects in targeted locations.
- *Develop Mixed Income/Mixed Finance Models.* Publish a research report that compiles the experience of developers of affordable assisted living facilities.

Of course, identifying the strategies is just the beginning. Roundtable participants are now developing action plans to carry out the strategies they identified.

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*Adapted from Affordable Assisted Living: Surveying the Possibilities by Jenny Schuetz and the Joint Center for Housing Studies of Harvard University for the Volunteers of America. January 2003. © President and Fellows of Harvard College.*

Unfortunately, the cost of assisted living puts the option out of reach for many people. And, although Medicaid funds are used extensively for nursing home expenses, assisted living currently receives minimal public funding. How many people in nursing home facilities would be equally well served and would prefer the assisted living environment? It's hard to say, but the costs of assisted living can be about half what people pay for skilled nursing facilities. Given seniors' preferences for a more independent living environment and the cost differences between assisted living and nursing home facilities, it makes sense for developers, policy makers, and government officials to rethink the allocation of subsidies between assisted living and nursing homes.

### An Overview of the Private-Pay Assisted Living Industry

The private-pay assisted living industry grew rapidly during the 1990s. About half of the current assisted living stock, estimated at 644,000 to 778,000 beds, was developed between 1991 and 1999. However, predicting the demand for assisted living can be extremely difficult because it is subject to many variables, including the estimated 45 percent annual rate of turnover as people die or move from assisted living into skilled nursing facilities. In fact, during the past decade, the assisted living industry overbuilt facilities, which led to excess supply and financial difficulties for several large companies. In addition, facilities in some states are experiencing rapidly rising costs and declining availability of liability insurance in response to lawsuits. New development has slowed to a rate that is expected to meet the demand for an estimated 19,500 new units annually.

### What Is "Affordable" Assisted Living?

The assisted living industry primarily serves high- to moderate-income seniors for good reason—assisted living is not cheap. Monthly fees range from \$2000 to \$4000, with a national average of \$2,159 in 2002. Approximately 65 percent of the costs are incurred for services and meals, and the remaining 35 percent pays for housing.

Given that most living expenses (e.g., housing, utilities, food, and personal care services) are included in assisted living costs, seniors should be able to spend about 80 percent of their monthly income on fees. This means, however, that a person would need an income of \$2,700 per month or \$32,400 per year to afford the fees. The problem is that 64 percent of seniors have annual incomes under \$25,000. Even in the private-pay market, about 40 percent of residents report receiving financial assistance from family, insurance, or public funds, while other residents spend down their assets to make ends meet.

So, how will low- to moderate-income seniors, many of whom already face housing affordability problems and whose physical needs are becoming more pressing, ever be able to afford assisted living? Industry experts estimate that seniors with annual incomes of just \$15,000 can afford assisted living when it is developed specifically for the affordable market.

Unlike the large developers and management firms in the private-pay market, most providers of affordable assisted living are nonprofit or public organizations, and they use different models than do the private-pay developers. For example, developers of affordable assisted living develop new construction, but they also rehabilitate or reconfigure existing facilities and add services to existing subsidized housing. Affordable market developers also have the flexibility to adjust to local housing conditions, and many have expertise in managing affordable housing and accessing public and private funds.

### The Challenges of Assembling the Funding

The most significant challenge in developing affordable assisted living facilities, and indeed all affordable housing, is assembling sufficient low-cost funding for development and operation. Affordable assisted living generally requires subsidies for housing development, housing operation, and supportive service provision. Most projects use a combination of federal, state, and local subsidy programs, including the Low-Income Housing Tax Credit (LIHTC), tax-exempt bonds, and Federal Housing Administration (FHA) mortgage insurance. Existing Section 202 elderly housing properties may apply for U.S. Department of Housing and Urban Development (HUD) funds under the Assisted Living Conversion program for building rehabilitation and reconfiguration. And, in addition to (re)development funds, most affordable assisted living projects have some rental subsidy, such as Section 8 vouchers. The final piece of the funding puzzle—service provision—typically comes from Medicaid under HOME- and Community-Based Service (HCBS) waivers.

Assembling the complete package of public funds necessary to make assisted living affordable to low-income seniors is difficult work. The various subsidies are administered through a number of different agencies, including HUD, state housing finance agencies, local housing authorities, and state Medicaid agencies. And each program maintains its own eligibility requirements and subsidy rules. The lack of coordination between agencies and inconsistent program rules can make the process of applying for subsidies in conjunction with one another quite difficult.



By Robert Jenkins

Maria Solis worked hard as a seamstress. When she got older and could no longer work, she moved to a subsidized, senior apartment building. After her husband died, Maria became isolated and delusional. Her daughter, Pilar Smith, could not find a way to help her mother stay in her apartment or at Pilar's home.

Maria's doctor thought that the right medicines would control her delusions and suggested that social interaction would help her depression. After learning more about it, Pilar decided that an assisted living program would offer her mother the right kind of physical care, medication management, and residential environment. Unfortunately, good-quality assisted living—at a cost of \$2,500 per month or more—was out of reach for their family. The few affordable assisted living residences that Pilar found did not provide, in her opinion, care or housing fit for “a dog.”

Pilar and her family decided that a nursing home paid for by Medicaid was her mother's only acceptable choice. Pilar found a nearby nursing home with a good reputation and started the admissions process. Although the nursing home administrator suggested that Pilar's mother would do better in the adjacent assisted living program run by the same company, Pilar and her mother could not afford the fees, and the assisted living program did not accept Medicaid.

Even though she was receiving good physical care, Maria seemed “to give up on life” shortly after moving into the nursing home. Pilar observed that the institutional environment and her continued isolation were contributing to her mother's deepening depression. Soon Maria would not get out of bed and all of her meals were brought to her. Even with good physical care, Pilar saw her mother failing faster each week.

Several months after her mother moved to the nursing home, a nurse's aide told Pilar about a high-quality affordable assisted living project that was being developed in Maria's old community. When she learned that the housing, meals, and care costs would all be paid through housing and Medicaid subsidies for people at Maria's income level, Pilar moved quickly.

Maria was one of the first residents to move into the new assisted living facility. And soon she began to enjoy her own room, the congenial residential environment, and organized activities. Two months after moving in, Maria is walking to the dining room for her meals and making friends. And Pilar says she has her bright smile back.

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*Robert Jenkins is deputy director of the Coming Home Program, a partnership between NCB Development Corporation and the Robert Wood Johnson Foundation.*

The largest stumbling block to assembling the necessary capital for affordable assisted living, however, often is the questionable availability of Medicaid funding for services. States limit the number of HCBS waivers they issue, and organizations must renew the waivers every five years. Particularly in the face of current fiscal trouble, states may be reluctant to expand waiver programs. The uncertainty of Medicaid funding for services makes it even more difficult for organizations to secure long-term funding for development. Developers of affordable assisted living projects face all of the difficulties faced by developers of affordable housing, with the added challenge of securing funding for services—no easy task even in less constrained fiscal environments.

### Brave New Voyagers: State and Local Initiatives

Despite all of these challenges, some innovative programs serve as beacons of hope. For example, Florida has been a pioneer in the field. Under the auspices of the Robert

Wood Johnson Foundation's Coming Home Program (see Box 2), Florida has launched several statewide initiatives. The lead agency of these initiatives, the Department of Elder Affairs, has coordinated efforts with other agencies, notably the Florida Housing Finance Corporation and local public housing authorities, to issue housing and Medicaid funds jointly. The state has also experimented with project-based Medicaid vouchers, sometimes in conjunction with Section 8 vouchers. The combined efforts of the legislature and the Miami Housing Authority resulted in the first use of licensed assisted living in public housing. Such coordinated and innovative efforts have resulted in a number of successful projects, although the state faces ongoing difficulties with liability insurance. Massachusetts also has had some success developing affordable assisted living facilities. Building on its rich supply of affordable housing developers and a variety of state housing subsidy programs, Massachusetts has adopted a residential model of assisted living regulation, which eases some of the licensing burdens for providers. The state allocates funds

specifically for assisted living. Massachusetts's main challenges in promoting affordable assisted living are the high development costs and the fierce competition for federal housing funds because of a strong demand for family housing.

Meanwhile, Michigan has been conducting an Affordable Assisted Housing Project pilot program in two counties, setting aside Section 8 vouchers for recipients of Medicaid waivers. This waiver program has addressed an unmet demand, but the limited availability of both vouchers and waivers has led to a lengthy waiting list.

### Policy Options and Recommended Strategies

Even in the private-pay market, assisted living is an inherently complicated, expensive, and high-risk product. The combination of housing and extensive personal care services is unavoidably costly and operationally demanding. Understandably, lenders and investors perceive assisted living as risky business and are wary of investing further in the industry. The affordable market faces the additional difficulties of fragmentation of funding and oversight as well as political instability. But the facts remain—affordable assisted living is needed by large and growing numbers of low-income seniors, and assisted living is more cost-effective than housing seniors in skilled nursing facilities. Federal and state policy makers, project sponsors, foundations, and research and professional organizations could act now to alleviate some of the obstacles to developing affordable assisted living.

First, developers and government officials could take advantage of the existing stock of both affordable senior housing and private-pay assisted living. These existing facilities may offer developers opportunities at lower cost than new development. In housing markets where the demand for assisted living is unknown or soft, developers could particularly benefit from rehabilitating or reconfiguring existing facilities and adding services as needed. Private-pay properties that are in financial difficulty also may offer developers good opportunities to purchase and reposition facilities. In light of the current tight government budgets that limit new construction, HUD, local housing authorities, and project sponsors could benefit from exploring the best ways to use this existing stock.

Second, government funding streams need to be better coordinated to make current programs more accessible to more people. State governments are in a position to address the regulatory difficulties that arise from efforts to coordinate several housing development programs, as well as Medicaid funds. Greater coordination between HUD and the U.S. Department of Health and Human Services,

for example, could increase the compatibility of rules among programs.

Third, developers and government officials could work to reduce the actual and perceived risks associated with investing in the assisted living industry to gain better access to private capital. Unfortunately, regulatory uncertainty over several of the funding programs, notably the LIHTC, further hampers the willingness of lenders and investors to back affordable assisted living. To alleviate some of the concerns, we need better information on the performance of existing affordable projects. And the uncertainty over the availability of Medicaid funds for supportive services must be resolved. The success of producing affordable assisted living projects to scale depends on state and federal willingness to commit Medicaid funds to alternate sources of long-term care.

Finally, greater sharing of information about existing efforts to develop affordable assisted living would help. Little research has been done to analyze the effectiveness or efficiency of the various models that have been developed. More data collection, research, and sharing of information are necessary if affordable assisted living is to realize any economies of production and management.

### Conclusion

To date the response to the housing and health care needs of seniors has been a patchwork effort at best. By identifying a large market of seniors who need supportive housing and who desire to maintain their independence, the private-pay market has developed a product that has attracted many middle- and upper-income seniors. Nonprofit organizations and public agencies have attempted to provide a similar model of supportive housing for low- and moderate-income seniors, but these advocates are struggling with unwieldy and poorly coordinated housing and health care finance systems and a perennial need for funding. Although coordinating efforts across the various dimensions and agencies will not be easy, this is not a problem that can be ignored or left to sort itself out. After all, the growth of the senior population over the past decade is just a precursor to the retirement of the baby boomers, which will begin in 2010. The next several years offer an important opportunity to develop a more coherent approach to seniors' housing and health care needs before the nation's commitment to all older Americans is truly tested.

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*Jenny Schuetz is a doctoral Candidate at the John F. Kennedy School of Government at Harvard University. This article is based on a working paper prepared for the Joint Center for Housing Studies of Harvard University and Volunteers of America. The full report can be found at [www.jchs.harvard.edu](http://www.jchs.harvard.edu).*

By Robert Jenkins

NCB Development Corporation's Coming Home Program coordinates state policy and program work to facilitate the development and operation of affordable assisted living facilities, as well as demonstration projects. It does so by helping the three critical state agencies (the Medicaid agency, the regulatory agency, and the housing finance agency), providers, and consumers to work together. This partnership helps states better understand what each group needs to move affordable assisted living forward. The partnership works collaboratively to find the best approaches to the complex requirements of the housing and subsidy programs. The partnership also ensures that nonprofit demonstration sponsors will have the technical assistance they need as they negotiate the complexities of developing affordable assisted living, and that they will benefit from the active involvement of the critical state agencies as they face the challenges that often occur in development and early operations.



These innovative partnerships are currently moving forward successfully in nine states. Two states have implemented regulations, and one has received permission from Medicaid to start a new assisted living program. The other states have reviewed and are in the process of modifying program rules and policies that appear to create obstacles to the development of affordable assisted living. Required policy and program changes vary for each state but generally include the regulatory requirements and their compatibility with high-quality services and efficient operations; the availability of adequate funding for services; the qualification of assisted living for various housing development and operating subsidies; and the myriad specific rules, processes, and policies that can make the day-to-day operation of high quality assisted living possible. More than 81 Coming Home demonstration projects are currently in feasibility analysis, development, or start-up stages.

An early success of the Coming Home Program is The Gardens at Osage Terrace in Bentonville, Arkansas. The Gardens, which opened in early 2003, is the first affordable assisted living residence in Arkansas.

The Gardens features private-occupancy apartments, an enclosed and secure courtyard, interior exercise/walking loop, commercial kitchen, dining room, activity room, café, library, game room, beauty shop, conference room, medications room, laundry, and administrative offices. The facility was developed and is owned by the Bentonville/Bella Vista, Inc., Community Development Corporation, a nonprofit developer of affordable housing. The project's medical services are provided through a partnership with Mercy Hospital.

The residence provides 100 percent of its housing and services at a cost affordable to residents who are eligible for nursing homes under Arkansas Medicaid income and service needs requirements. On average, residents are 83 years of age, with an annual income of \$11,273. Seventy-five percent of the residents entered with Medicaid as their service payment source; the rest of the residents are spending down their assets before they qualify for Medicaid. (On average, it takes a private-pay resident about 28 months to pay down his or her assets.) Staff estimates that 72 percent of the residents would not have had any alternative to moving to a nursing home had The Gardens not been available.

The project's total development costs were \$3,958,208 (about \$88,000 per unit). Rents (which cover the project's debt payment, utilities, maintenance, and reserves) range from \$202 to \$415 a month, averaging \$321 a month. The average meal payment, including three meals a day and snacks, is \$181 per month. Medicaid pays the average service payment, \$1,248 per month, to the provider.

In addition to regulations and a Medicaid waiver that Arkansas implemented, the partnerships that the Arkansas Division of Aging and Adult Services created with the Arkansas Development Finance Authority and the local community development corporation project sponsor have been crucial to the success of The Gardens.

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*Robert Jenkins is deputy director of the Coming Home Program, a partnership between NCB Development Corporation and the Robert Wood Johnson Foundation.*

For more information on the Coming Home Program, NCB Development Corporation, affordable assisted living case studies, or technical assistance tools, visit NCBDC's Web site ([www.ncbdc.org](http://www.ncbdc.org)) and select "affordable assisted living" from the menu.

## RESOURCES

### Web Sites

Assisted Living Federation of America is the largest association exclusively devoted to the assisted living industry and the population it serves.

([www.alfa.org](http://www.alfa.org))

NCB Development Corporation provides financial development services and technical assistance to states and local sponsors of affordable assisted living projects. ([www.ncbdc.org](http://www.ncbdc.org))

The State of Arkansas Division of Aging administers programs for the elderly and coordinates the state's assisted living program. ([www.state.ar.us/dhs/aging/assistedliving.html](http://www.state.ar.us/dhs/aging/assistedliving.html))

Volunteers of America operates assisted living facilities and housing and community service programs. ([www.volunteersofamerica.org](http://www.volunteersofamerica.org))

### Articles and Reports

*A Quiet Crisis in America*, Final Report to Congress. 2002. Commission on Affordable Housing and Health Facility Needs for Seniors in the 21st Century.

*Adding Assisted Living Services to Subsidized Housing: Serving Frail Older Persons with Low Incomes* by Robert Wilden and Donald L. Redfoot. 2002. AARP Public Policy Institute.

*Affordable Assisted Living: Surveying the Possibilities* by Jenny Schuetz and the Joint Center for Housing Studies of Harvard University for the Volunteers of America. January 2003. ([www.jchs.harvard.edu/publications/seniors/03-1\\_schuetz.pdf](http://www.jchs.harvard.edu/publications/seniors/03-1_schuetz.pdf))

*MetLife Survey of Assisted Living Costs*. 2002. MetLife Mature Market Institute ([www.metlife.com](http://www.metlife.com))

## Insight


"People with money are making the choice for the more residential environment," said Donald Redfoot, a specialist on long-term care with AARP, formerly the American Association of Retired persons. "Those are options we would like to see opened up for people with modest means."

—"Where Need, Finances Clash: Income Keeps Many from Assisted Living," *Boston Globe* (Feb. 7, 2003)

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